$25.00 ANNUALLY
40 LETTERS PER YEAR

# DOW THEORY LETTERS

"THE MARKET AS INTERPRETED UNDER THE DOW THEORY"

RICHARD RUSSELL
125 EAST 93RD STREET
NEW YORK CITY 28

REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION

COPYRIGHT 1958 - RICHARD RUSSELL

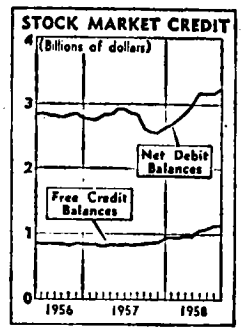


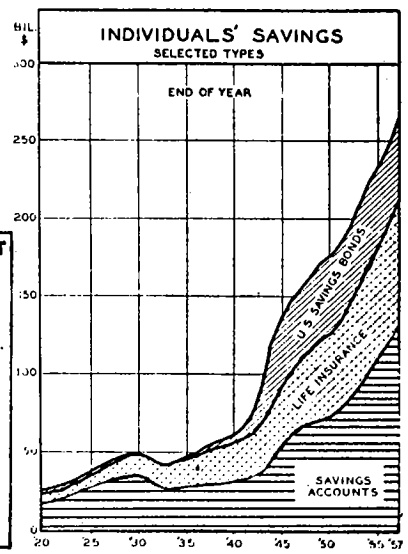
READING THE AVERAGES. These letters analyze the daily and weekly moves of the market with perhaps more thoroughness than any other financial publication being written today. The reason--through these studies readers will gradually learn to know the implications of the movements of the averages. The study of the stock market is the study of the averages, yet not one person in a thousand makes this study. Knowledge of market movements will give one a confidence about the market which can not be obtained in any other way. The daily market moves, although usually unimportant in themselves, form the secondary patterns, and the secondary patterns form the primary pattern. The primary trend (see brochure) is all important; the primary direction is the most crucial single fact to know if one is to invest successfully. We always invest with the great primary trend.

HOW FAR UP ARE WE GOING? Readers know that we are now in the early part of the third or boom phase of this great bull market. In 1949 the first phase of the present market began at 160 on the Dow-Jones Industrials, and by 1953 industrials advanced to 293, almost doubling. The second phase started at 255 in 1953 and topped out at 520 in 1956, again almost doubling. The third present phase started in Oct. 1957 at 419. The question now is--where and when will the third phase end? Considering that the third phase is the boom phase, I believe that the averages could again double and eventually probe the 750-900 area, perhaps about 1960. We have only one previous bull market which compares at all in length and height with this one--the 1921-29 market. In 1921 the 1921-29 bull market began at 60. In 1927 that third phase began at 152. How high did it go? About 250% higher in the next two years to 381! The present bull market's third phase began, however, at a point far above the '29 market's highest pinnacle.

THINGS ARE DIFFERENT NOW. This is the oft heard phrase when one compares 1929 with the present. Margins were 10% then, they are 90% now. If so, then where will the public find money enough to purchase great quantities of stocks and bid them up to 750-900 on the Dow-Jones? The answer is on the charts below. Note the tremendous amounts of cash available in saving accounts, bonds, and life insurance now as compared to '29. The market credit chart shows funds available to N.Y. Stock Exchange customers for purchase of securities on margin or net debit balances. Free credit balance is the money in customer's accounts which is available for purchases. Both are now near historic highs. All in all, the money necessary for a great boom is present and accounted for!

WHY WILL IT BE SPENT: When the industrials hurdled their 521.05 historic highs this year, the averages were saying that informed investors saw something in the future that made them willingly pay more for the market than they ever paid before. What they saw was a coming "boom" of unprecedented proportions. These investors bought the market at historic highs because they were dangerously under-invested. The recent large volume says that investors are still under-invested. The confused statements one reads in the papers to the effect that the public is rushing into the market simply do not jibe with the facts. We know through the odd-lot index that since last May the public has tended to sell more stock than it bought. If the buying from the funds, pensions, insurance companies and large investors is now urgent, what will happen when odd-lot buying comes in, and the public reads about the prosperity that the best financial brains in the country saw months ago? The answer



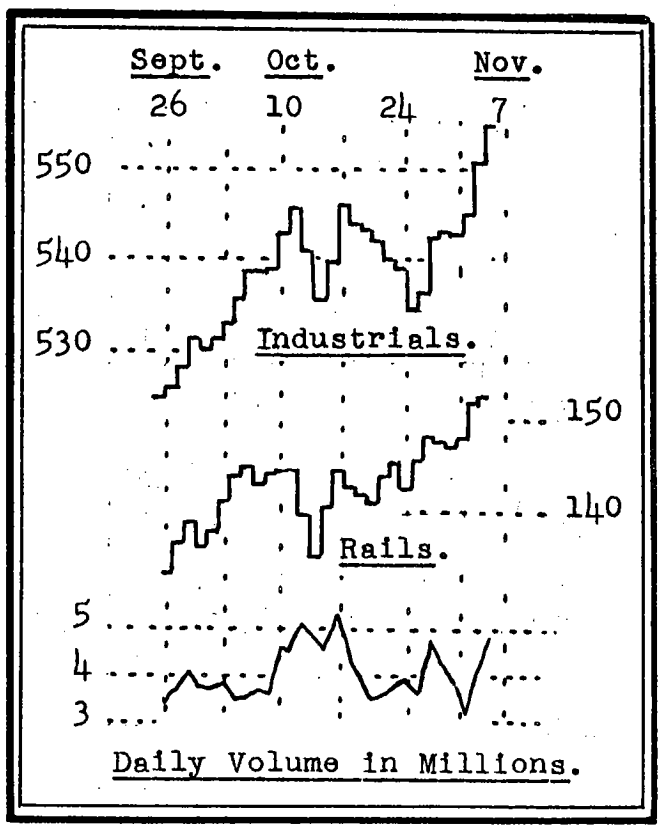



is that the market will go up and up. A boom in stocks will be created. The money is ready, the banks are bursting at the seams. In my opinion, we have not seen the real volume or the real prices yet. I expect many 8-10 million share days ahead with prices of many stocks doubling and tripling. This generation has not yet seen a great bull market climax or boom.

DOW THEORY. Wednesday, Nov. 5. While a sold-out public bit their collective lips and waited for the great reaction, the primary trend once more took over and drove the industrials decisively to new all-time highs. To make the day complete, rails also closed at a high for the year in a simultaneous sweep. This twin penetration holds the most bullish implications for the market. Despite the anguished warnings of hundreds of bearish analysts and writers, despite the fears that the market had not discounted the Democratic election sweep (of course it had), this great bull market has refused to collapse and allow the crowd to climb aboard. These letters forecast by means of the emotionless averages. Dow Theorists are not interested in bearish or bullish "talk". I have remained steadfastly bullish throughout the recent "scare" consolidation. Readers of these letters during the past month were given the most detailed reasons why, under my Dow Theory interpretations, I felt the market was a "buy" and not a "sale." Needless to say, few other services dared (mainly through lack of knowledge) to take this unhedged stand. I believe that the market will now try for the 570 area before the next stop or consolidation. Volume of late has been steady and not excessive which implies that the best type of investment buying is coming into the market at these prices.

STOCKS I LIKE HERE. Westinghouse--still 14 points under its bull market high--selling value for value much lower than General Electric. Earnings turning up. Stock is poised here for a real move. U.S. Steel--the "king" of the steel business. Could make $12 next year and sell for 10 to 12 times earnings. Next year's price might make it look cheap here! General Motors: The great company with a great car line in what could be a great car year. Could still be bought. Kaiser Aluminum: A heavy debt structure gives this outfit tremendous leverage in a booming economy. In a growth field and my favorite along with Reynolds in this group. Anaconda: One of the top metal companies. Also coming into aluminum--tremendous reserves of copper. The stock is statistically cheap here, and has earned $12 a share. I think Anaconda could hit $120 a share before this market tops out. Standard Oil of Indiana: An oil empire and the price is right. Selling at about five dollars over book value and well below its bull market high of $65. A buy at the market.

(Nov. 6) Following yesterday's industrial breakthrough (the bullish signal we have been waiting for) both averages again climbed to new highs today. Volume rose impressively to 4.9 million. The most urgent type of investment buying seemed to dominate the market with oils, steels, chemicals, and photography stocks making many new highs for the year or all-time highs.




| Thirty Stocks Used in Dow Jones Industrial Averages are: | | |
|---|---|---|
| Allied Chemical | General Electric | Procter & Gamble |
| Amer Can | General Foods | Sears Roebuck |
| Am Smelt& Ref | General Motors | Std Oil of Cal |
| Amer Tel & Tel | Goodyear | St Oil of N J |
| Am Tobacco | Inter Harvester | Texas Co. |
| Bethlehem Steel | Inter Nickel | Union Carbide |
| Chrysler | Inter Paper | United Aircraft |
| Corn Products | Johns Manville | U.S. Steel |
| Du Pont | Nat'l Distillers | Westinghouse El |
| Eastman Kodak | Nat'l Steel | Woolworth |
| Twenty Railroad Stocks Used are: | | |
| Atchison | Erie | NY NH & H |
| Atl Coast Line | Great North Ry | Norfolk & West'n |
| Baltimore & Ohio | Illinois Central | Pennsylvania |
| Canadian Pacific | Kansas City So | Southern Pacific |
| Ches & Ohio | Louisv & Nash | Southern Railway |
| Chi Rk Is & Pac | N Y Central | Union Pacific |
| Del & Hudson | N Y C & St L | |